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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED
DECEMBER 31, 1943

CORPORATE OFFICES

The Merchandise Mart
222 North Bank Drive : Chicago, Illinois

BOARDS
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A notice of the annual meeting of shareholders, to be held on April 7, 1944, together with a proxy statement and form of proxy will be mailed to shareholders on or about March 6, 1944. Proxies will be solicited by the management.

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 Incorporated in 1901

BOARD OF DIRECTORS

ALBERT B. DICK, JR.
MARSHALL FIELD
STANLEY FIELD
CHARLES Y. FREEMAN
HUGHSTON M. McBAIN
JAMES L. PALMER
WILLIAM B. SIMPSON
ALBERT A. SPRAGUE
JOHN P. WILSON

OFFICERS

President
HUGHSTON M. McBAIN

First Vice President
JAMES L. PALMER

Vice Presidents
CHARLES C. BUNKER
LUTHER H. HODGES
WILLIAM S. STREET

Secretary and Treasurer
EARL KRIBBEN*

Comptroller
JOHN D. ANDERSEN

Assistant Secretary and Assistant Treasurer
ROBERT T. GRAHAM

Assistant Secretaries
RALPH E. BOWERS
HOWARD M. PACKARD*

Assistant Treasurer
GERALD A. SIVAGE*

Assistant Comptroller
MILTON C. MUMFORD*

*On leave of absence with Armed Services.

General Counsel
WILSON & McILVAINE
CHICAGO

Public Accountants
ARTHUR ANDERSEN & CO.
CHICAGO

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO
GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO
BANKERS TRUST COMPANY
NEW YORK

TO THE SHAREHOLDERS

The Board of Directors submits this annual report for the year ended December 31, 1943.

Your Company's operating results in 1943 compared favorably with those of 1942 despite the many unusual problems which arose during the year. Many of the anticipated merchandise shortages materialized, and throughout the year the problem of merchandise procurement became increasingly difficult. At no time were we able to maintain a staff of employes fully adequate to our needs. We nevertheless succeeded in handling an increased volume of business and have been able to maintain reasonably good service to our customers. This accomplishment has been due mainly to the industry and resourcefulness of our supervisory staff and other employes, many of whom have assumed work loads far greater than normal in order to meet conditions of an emergency nature. To them belongs much of the credit for the results achieved by the Company during the year.

Our profits for 1943 and 1942 are set forth in the following table:

	1943	1942
NET PROFIT BEFORE INTEREST AND FEDERAL INCOME TAXES	$17,873,694	$14,326,159
DEDUCT—		
Interest charges	$ 791,940	$ 893,325
Provision for Federal normal tax and surtax	1,897,934	1,940,000
Provision for Federal excess profits tax	9,967,593	6,570,000
NET PROFIT FOR YEAR	$ 5,216,227	$ 4,922,834
DEDUCT—		
Provision for possible future decline in market value of inventories, and other contingencies	2,000,000	2,200,000
Less: Reserves and accruals provided in prior years, no longer required	—	1,444,288
	$ 2,000,000	$ 755,712
Balance transferred to earned surplus	$ 3,216,227	$ 4,167,122

Net profit and dividends paid per share of preferred and common stock in each of the last two years were as follows:

	6% Cumulative Preferred (Both Series)		Common	
	Net Profit	Dividends Paid	Net Profit (After Preferred Dividend Requirements)	Dividends Paid
1943	$34.77	$6.00	$2.22	$1.00
1942	32.82	6.00	2.07	1.00

Net sales and rental income for 1943 were $138,632,315 compared with $122,016,644 in 1942, a gain of 13.6%.

The net profit of the Company, after interest and Federal income taxes, slightly exceeded that of 1942, and was somewhat below the level of the years immediately preceding our entry into the war. During the past five years our net profit after taxes has moved within a narrow range, reflecting the fact that, as in many other companies, approximately our entire increase in earnings before taxes has been absorbed by higher taxes.

Every major operating unit of the Company, i.e., the stores in the Chicago area, the Frederick & Nelson store in Seattle, the Manufacturing Division, and the Real Estate Division, enjoyed the largest volume of business in its history in 1943. The net profits of each unit, before interest and taxes, continued at high levels.

Each of the stores in our Retail Division experienced an increase in net profit, before interest and taxes, in 1943. Frederick & Nelson had an exceptionally good year, due in large part to the continued high level of employment in Seattle. Gross profit margins in the Retail Division approximated those of 1942; expenses increased somewhat, higher wage levels accounting for much of the increase.

Net profit, before interest and taxes, of the Manufacturing Division, which comprises ten textile mills, were somewhat less than in the preceding year because of higher wages and raw material costs, and on account of government ceilings on selling prices. The renegotiation of 1942 sales to the Government did not materially affect the reported net profit for that year. The Company has made provision for possible renegotiation of 1943 sales on a basis similar to that used in connection with the settlement for 1942.

Unfilled orders of the Manufacturing Division at the year end were considerably less than at the close of 1942 because of a reduction in orders from our armed services at that particular date. Purchases of raw materials in 1943 were confined mainly to amounts necessary to cover current operating needs and unfilled orders.

The Real Estate Division, composed mainly of The Merchandise Mart and the Annex Office Building, which houses our Store for Men in Chicago, in 1943 had the largest operating profit, before interest and taxes, in its history. As at the end of 1942, The Merchandise Mart enjoyed an occupancy of approximately 98% at December 31, 1943. About one-third of its space is now leased to government agencies under leases expiring at intervals throughout the next four years. Your Company occupies 9% of the space in the building. Commercial tenant occupancy changed but little in 1943, and the building continues to serve its primary purpose as a major market center.

FINANCIAL CONDITION

Dividends paid during 1943 totaled $2,843,763, the same amount as in 1942. Of this amount, $900,000 applied to the two series of Preferred Shares, while the balance, $1,943,763, represented dividends totaling $1.00 on each Common Share outstanding.

On December 31, 1943, our working capital was $25,298,823, an increase of $2,140,199 during the year. The current ratio was 2.0 to 1 compared with 2.1 to 1 a year ago. The slight decrease in the ratio was more than accounted for by an increase in the accrual for Federal

income taxes. Had we followed the practice of some companies in deducting United States Treasury Tax Savings Notes from the Federal income tax accrual on the liability side of the balance sheet, our current ratio would have been 2.8 to 1 on December 31, 1943 compared with 2.4 to 1 at the end of 1942.

The Company ended the year with a large increase in cash and government securities. It held cash, United States Treasury Tax Savings Notes and other United States Treasury obligations totaling $22,725,747 compared with a Federal income tax accrual of $13,465,273. At the end of 1942 our cash, United States Treasury Tax Savings Notes and other United States Treasury obligations totaled $13,110,950 compared with a tax accrual of $9,033,680. While we believe our cash position to be strong, it should be kept in mind that because of wartime restrictions we have had to defer sizable capital expenditures which eventually will have to be made.

Receivables declined slightly during the year. The reserve for doubtful accounts on December 31, 1943 was in the same ratio to receivables as a year ago, and is deemed adequate.

Total inventories at the year end were $16,565,368, a decline of nearly $2,000,000 from the December 31, 1942 level. Shortages of certain kinds of goods in our retail stores contributed to some extent to this decline, but it was due also in part to the adoption of an increasingly conservative inventory policy during the year in both the Retail and Manufacturing Divisions.

Our future commitments on December 31, 1943 were $2,800,000 higher than at the end of 1942, because of the continued necessity of placing certain orders further ahead than usual in our Retail Division. Due entirely to increased future commitments, the total of inventories and commitments slightly exceeded the figure of a year ago, but was substantially below the level reached earlier in 1943.

Total capital expenditures for 1943 were only $582,955, as compared with $1,515,112 in 1942 and $2,309,768 in 1941. The reduction is accounted for entirely by government restrictions on construction and on the purchase of equipment. Depreciation charges in 1943 totaled $2,506,451 compared with $2,423,674 in 1942.

The Company retired $1,800,000 of its funded debt during the year. In addition to required sinking fund payments and retirements of $1,400,000, it exercised options to retire $400,000 of its First Mortgage Twenty-Year Sinking Fund Bonds. At the year end the Company had $23,100,000 of funded debt outstanding compared with $29,000,000 on December 31, 1939. No short-term borrowing was required to finance operations in 1943.

The Company in 1943 added $2,000,000 to the previously established inventory reserve of $3,000,000, making a total reserve of $5,000,000 against possible future decline in market value of inventories, and other contingencies.

Earned surplus decreased during the year from $13,162,472 to $8,534,936. This decrease was accounted for by the establishment of a pension reserve to which further reference will be made below.

The number of our shareholders has increased steadily since 1939, from 8,085 to 12,213.

YOUR COMPANY AND THE WAR

Again in 1943 your Company made every possible contribution to the prosecution of the war.

As in 1942, approximately one-third of all the goods sold by the Manufacturing Division was supplied to the armed services. These products were principally all-wool blankets, parachute cloth, camouflage nets, sheets and towels.

The Company of course has made every effort to comply fully with the numerous directives and requests of all government agencies in such matters as salary stabilization, price control, transportation, capital improvements and credit control. In following these wartime blueprints we were required to modify or eliminate many of our prewar services. Our customers have been most cooperative and have accepted many inconveniences good-naturedly and patriotically.

The number of our employes in the armed services at the end of 1943 was 2,769 compared with 1,776 a year previously, and 607 at the end of 1941. There are 19 gold stars in the huge service flag hanging in the south rotunda of our main retail store in Chicago.

Our efforts in promoting the sale of war bonds have been vigorous throughout the year. We were awarded the Treasury Department's citation "for distinguished service in retail promotion of War Savings Bonds and Stamps". We also received written expressions of appreciation from high-ranking officers in every branch of the armed services for numerous projects in furtherance of the war effort.

We are proud to report the award on August 18, 1943 of the Army and Navy "E" for high achievement in the production of war materiel in our Woolen Mill, Spray, North Carolina.

THE RETIREMENT PROGRAM

On October 22, 1943, we outlined to our shareholders the details of a Retirement Program the adoption of which your management recommended. It was adopted, subject to approval by the Commissioner of Internal Revenue, at a special meeting of shareholders on November 15, 1943. Of the 1,515,568 shares represented at the meeting, 97.46% were voted in favor of the Program. The Program, which includes a Pension Plan and an Annuity Plan, has been placed in effect in the Company subject to the approval of the Commissioner, which, in the opinion of general counsel, we may reasonably expect. The first Normal Retirement Date under the Program is December 1, 1944. We expect to retire no one under its provisions prior to approval by the Commissioner.

The Retirement Program has been received with great enthusiasm by our employes. We believe that its adoption will bring them greater peace of mind, and that it already has materially strengthened our entire organization.

We established, by a charge to Earned Surplus, a reserve of $5,000,000 to cover the estimated net past service cost of the Pension Plan adopted in 1943. Annual payments for

past service cost, less the reduction in Federal income taxes resulting therefrom, will be charged against this reserve from year to year. We expect to spread the total past service cost over a ten-year period.

The portion of past service cost paid in 1943 was $208,921, after taxes. This amount has been charged against the $5,000,000 pension reserve. The 1943 current service cost of the Retirement Program totaled $169,585, after taxes.

We shall be glad to send copies of all published material on the Retirement Program to any interested shareholder. Inquiries should be addressed to the Secretary's Office, 222 North Bank Drive, Chicago 54, Illinois.

PERSONNEL

At the annual meeting of shareholders held on April 9, 1943, Mr. William B. Simpson and Mr. James L. Palmer, First Vice President of the Company, were elected to fill vacancies on the Board of Directors.

At the meeting of the Board of Directors held on the same date, Mr. William S. Street, General Manager of the Chicago and Suburban stores, and Mr. Luther H. Hodges, General Manager of the Manufacturing Division, were elected Vice Presidents of the Company.

The Company suffered a great loss on December 15, 1943 in the death of Mr. William H. St. Clair, President and General Manager of its Frederick & Nelson store in Seattle, Washington. On February 1, 1944, Mr. Charles C. Bunker, a Vice President of Marshall Field & Company, was elected President of Frederick & Nelson, and Mr. Hector A. Escobosa, formerly General Merchandise Manager of Frederick & Nelson, was promoted to the position of General Manager.

Mr. Wilbur C. Munnecke, Vice President, who was given a war service leave of absence for the duration on September 1, 1942, resigned as of February 11, 1944. He is now a Vice President of the University of Chicago, where part of his time is devoted to the same war projects to which he previously had been assigned.

On February 1, 1944, Mr. Austin T. Graves was named Assistant General Manager, and Mr. Harold J. Nutting was named General Merchandise Manager, of the Chicago and Suburban stores.

GENERAL COMMENTS

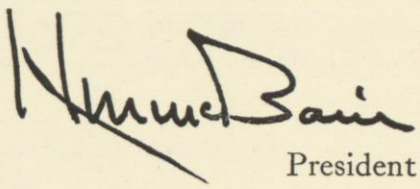
Your management is devoting a great deal of thought to the future. While in some respects the skies look brighter than they did a year ago, the probability is that 1944 will be another difficult year for our organization. As long as the war lasts we will have many abnormal merchandise problems. The near future holds no prospect of alleviation of the many difficulties arising from the scarcity of manpower. We believe, nevertheless, that our organization is fully competent to deal with such problems as may develop during the remaining period of the war.

In the meantime our entire supervisory staff has been engaged in the formulation of postwar plans. This undertaking will continue in 1944 and we expect it to place the Com-

pany in a position to adapt its operation quickly and intelligently to the conditions brought about by the return of peace.

We are proud of the job done by our executive staff and other employes in enabling the Company to serve the needs of a nation at war. Our confidence in the future springs in part from the knowledge that these men and women will continue to distinguish themselves as they meet the problems of the years ahead.

By order of the Board of Directors,

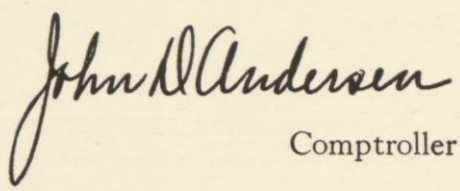


President

March 1, 1944

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.



Comptroller

March 1, 1944

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of December 31, 1943, and the statements of profit and loss, surplus and reserve for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and it included all procedures which we considered necessary. We had previously made a similar examination for the year ended December 31, 1942.

In our opinion, the accompanying balance sheet and related statements of profit and loss, surplus and reserve present fairly the position of Marshall Field & Company at December 31, 1943, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 15, 1944.

Statement of Profit and Loss

For the Years Ended December 31, 1943 and 1942

	1943	1942
PROFIT FROM RETAIL AND MANUFACTURING OPERATIONS:		
Net sales to customers	$134,922,652	$118,809,638
Cost of sales and operating expenses	117,859,726	105,233,769
	$ 17,062,926	$ 13,575,869
PROFIT FROM REAL ESTATE OPERATIONS:		
Rental income from tenants	$ 3,709,663	$ 3,207,006
Operating expenses	2,898,895	2,456,716
	$ 810,768	750,290
Profit from operations before interest charges, etc.	$ 17,873,694	$ 14,326,159
INTEREST CHARGES ON FUNDED DEBT	791,940	893,325
Profit before Federal income taxes	$ 17,081,754	$ 13,432,834
PROVISION FOR FEDERAL INCOME TAXES (SEE FOOTNOTE)		
Normal tax and surtax	$ 1,897,934	$ 1,940,000
Excess profits tax, less postwar credit	9,967,593	6,570,000
	$ 11,865,527	$ 8,510,000
NET PROFIT FOR THE YEAR	$ 5,216,227	$ 4,922,834
DEDUCT:		
Provision for possible future decline in market value of inventories, and other contingencies	$ 2,000,000	$ 2,200,000
Less: Reserves and accruals provided in prior years, no longer required	—	1,444,288
	$ 2,000,000	$ 755,712
Balance transferred to earned surplus	$ 3,216,227	$ 4,167,122

FOOTNOTES:

The portion of the past service cost of the Pension Plan paid in 1943 has not been deducted in determining the above provision for Federal income taxes ($11,865,527); this payment and the reduction of $890,665 in Federal excess profits tax resulting therefrom are reflected in the reserve for estimated net past service cost of Pension Plan.

Provisions for taxes other than Federal income taxes, included in cost of sales and operating expenses, amounted to $4,727,750 in 1943 and $4,384,882 in 1942.

Provisions for depreciation of buildings and equipment and amortization of leaseholds, included in cost of sales and operating expenses, amounted to $2,506,451 in 1943 and $2,415,495 in 1942.

BALANCE SHEETS—

ASSETS

	1943	1942
CURRENT ASSETS:		
Cash	$ 7,318,294	$ 6,879,501
U. S. Government securities, at cost—		
Tax savings notes	12,000,000	4,000,000
Short-term Treasury obligations	3,407,453	2,231,449
Receivables from customers and others, less reserve	11,717,019	12,064,315
Merchandise inventories, priced at the lower of cost or market	16,565,368	18,455,194
TOTAL CURRENT ASSETS	$ 51,008,134	$ 43,630,459
PREPAID INSURANCE, SUPPLY INVENTORIES, ETC.	$ 1,350,861	$ 1,425,260
POSTWAR REFUND OF EXCESS PROFITS TAX	$ 518,548	$ 230,000

FIXED ASSETS: Classification	Cost	Reserves for Depreciation and Amortization		
Retail and manufacturing properties, etc.—				
Land	$16,246,249	$ —	$ 16,246,249	$ 16,249,063
Leaseholds	725,847	114,601	611,246	618,889
Buildings and building equipment	21,955,570	11,649,755	10,305,815	10,878,881
Equipment	11,524,015	5,991,280	5,532,735	6,127,532
Merchandise Mart—				
Air rights and land	2,907,462	—	2,907,462	2,907,462
Building and equipment	28,460,893	9,220,524	19,240,369	20,052,854
TOTAL FIXED ASSETS	$81,820,036	$26,976,160	$ 54,843,876	$ 56,834,681
GOODWILL, TRADE-MARKS, ETC.			$ 1	$ 1
			$107,721,420	$102,120,401

DECEMBER 31, 1943 and 1942

LIABILITIES

	1943	1942
CURRENT LIABILITIES:		
Accounts payable	$ 4,926,306	$ 4,677,253
Accruals—		
Federal income and excess profits taxes	13,465,273	9,033,680
Local and miscellaneous taxes	3,477,164	2,870,149
Other accruals	2,440,568	2,490,753
Current sinking fund requirements and serial bond maturities	1,400,000	1,400,000
TOTAL CURRENT LIABILITIES	$ 25,709,311	$ 20,471,835
FUNDED DEBT:		
First Mortgage Serial Bonds—		
Series One and Series Two, 3%, maturing $500,000 semi-annually from May 1, 1943 to May 1, 1955, inclusive; current maturities of $1,000,000 included in current liabilities	$ 10,500,000	$ 11,500,000
First Mortgage Twenty-Year Sinking Fund Bonds, 3.6%, semi-annual sinking fund payments required from February 1, 1943 to February 1, 1959; current requirement of $400,000 included in current liabilities	11,200,000	12,000,000
	$ 21,700,000	$ 23,500,000
RESERVES:		
For possible future decline in market value of inventories, and other contingencies	$ 5,000,000	$ 3,000,000
For estimated net past service cost of Pension Plan	4,791,079	—
	$ 9,791,079	$ 3,000,000
CAPITAL STOCK AND SURPLUS:		
Preferred Shares—		
6% Cumulative Preferred Shares, of $100 par value; redeemable at $110 per share and accrued dividends; convertible until January 1, 1947 at the rate of 3.2608 Common Shares for each preferred share— Authorized and outstanding 95,508 shares	$ 9,550,800	$ 9,550,800
6% Cumulative Preferred Shares, Second Series, of $100 par value; redeemable at $105 per share and accrued dividends; convertible until January 1, 1952 at the rate of 3½ Common Shares for each preferred share— Authorized and outstanding 54,492 shares	5,449,200	5,449,200
	$ 15,000,000	$ 15,000,000
Common Shares—		
Authorized 4,000,000 shares of no par value, of which 502,154 shares are reserved for conversion of preferred shares; and of which 180,000 shares may be sold to officers or employes without first offering such shares to the shareholders— Issued and outstanding 1,943,763 shares at stated value	16,818,815	16,818,815
Paid-in surplus	10,167,279	10,167,279
Earned surplus	8,534,936	13,162,472
	$ 50,521,030	$ 55,148,566
	$107,721,420	$102,120,401

Statement of Surplus and Reserve

For the Year Ended December 31, 1943

Earned Surplus

BALANCE AT DECEMBER 31, 1942		$13,162,472
NET PROFIT FOR THE YEAR, less provision of $2,000,000 for possible future decline in market value of inventories, and other contingencies		3,216,227
		$16,378,699
DEDUCT:		
Cash dividends declared on—		
6% Cumulative Preferred Shares ($6.00 per share)	$ 573,048	
6% Cumulative Preferred Shares, Second Series ($6.00 per share)	326,952	
Common Shares ($1.00 per share)	1,943,763	
Provision for estimated net past service cost of Pension Plan (computed on the basis of deducting from the total cost an estimated allowance for the reduction in Federal income taxes resulting therefrom)	5,000,000	7,843,763
BALANCE AT DECEMBER 31, 1943		$ 8,534,936

Paid-In Surplus

BALANCE AT DECEMBER 31, 1942 AND 1943	$10,167,279

Reserve for Estimated Net Past Service Cost of Pension Plan

Provision for estimated net past service cost of Pension Plan, charged to earned surplus	$ 5,000,000
DEDUCT:	
Portion of past service cost paid in 1943 ($1,099,586), less reduction in Federal excess profits tax ($890,665) resulting therefrom	208,921
BALANCE AT DECEMBER 31, 1943	$ 4,791,079

THE MERCHANDISE MART